

PUBLIC VERSION

BEFORE THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

REBUTTAL TESTIMONY

OF

THERESA L. O'BRIEN

ON BEHALF OF VERIZON NEW ENGLAND INC.,

d/b/a VERIZON RHODE ISLAND

OCTOBER 22, 2002

DOCKET NO. 3445

1 Q. Please state your name and title.

2 A. My name is Theresa L. O'Brien. I am Vice President of Regulatory Affairs for
3 Verizon Rhode Island.

4 Q. Did you previously file testimony in this proceeding?

5 A. Yes. I submitted direct testimony in this proceeding on July 1, 2002.

6 Q. What is the purpose of this rebuttal testimony?

7 A. The purpose of my rebuttal testimony is to respond to the testimony of Mr.
8 Thomas Weiss, Mr. James Lanni, Dr. August Ankum, and Ms. Cindy Schonhaut.

9 Q. Please address Mr. Weiss's recommendation that the term of the Plan be limited
10 to a period of three years.

11 A. There is no valid reason to place an arbitrary term limit on Verizon's proposed
12 Plan. Should there be a marked change in the competitive landscape in the future,
13 the Division could, at that time, petition the Commission to open a proceeding to
14 investigate Verizon's retail prices. Contrary to assertions made by Ms. Schonhaut,
15 however, the competitive marketplace in Rhode Island is continuing to expand, as
16 described in Mr. Silvia's rebuttal testimony. As such, Verizon's ability to exercise
17 market-based pricing in response to competitive conditions should not be subject
18 to an arbitrary end date of three years.

19 Q. Both Mr. Weiss's and Ms. Schonhaut's testimony express concern with a \$2.00
20 increase in the monthly residential basic exchange rates during the initial two
21 years of Verizon's proposed Plan. Would you please address this concern?

22 A. Under Verizon's plan, the maximum allowed increase in the primary flat-rated
23 ("FR") residential basic exchange rates would average 6.4% per year. This

1 potential increase in basic exchange rates is quite reasonable. Basic residential
2 telephone exchange rates have not increased in Rhode Island since 1994, even
3 though many exchanges now enjoy significantly expanded local calling areas.
4 Over an even longer period of time, rates have come down. In 1985, a Providence
5 customer was paying \$19.08 a month for FR service and Touchtone service.
6 Today, that same customer is paying \$17.26 for the same services.

7 As an alternative to Verizon’s Plan, Mr. Weiss recommends a \$.50 increase for
8 FR service in each of the first three years of the Plan, and a \$.25 increase per
9 month in measured (“MR”) service for each of the first three years of the Plan.
10 The \$.50 cap would allow an average annual increase of 3.2%, barely keeping
11 pace with historical rates of inflation. After twenty years of flat or decreasing
12 rates, limiting Verizon’s ability to raise rates to – at most – match inflation is
13 unreasonable.

14 Q. In his testimony, Mr. Weiss states that Verizon’s proposed \$2.00 increase in the
15 primary residential basic exchange rate “would contravene to the objective of
16 maintaining and continuing the development of universal basic residential access
17 to the network in Rhode Island” (Weiss testimony at 11). Would you please
18 comment?

19 A. In its proposed Plan, Verizon addresses the important issue of universal service
20 through its provision for Lifeline customers. In my direct testimony (at 8), I state
21 that there will be no impact on basic telephone service for Verizon RI Lifeline
22 customers because the Lifeline credit will be increased by an amount equal to any
23 increase in the primary residence basic exchange rate. This provision will ensure

1 that all Rhode Island Lifeline customers will continue to have access to the
2 network at the existing very affordable prices.

3 Q. Please address Ms. Schonhaut's comment that "Verizon's proposal seems to
4 suggest that geographic rate deaveraging is a good idea in a competitive market"
5 (Schonhaut testimony at 13).

6 A. Verizon's Plan neither proposes nor prohibits geographic variations in pricing.
7 Furthermore, any such proposal by Verizon would be filed under the existing R.I.
8 General Law §39-3-11 that requires Verizon to provide the Commission with 30
9 days notice of any rate or tariff changes, thereby allowing any party the
10 opportunity to comment on the proposed change.

11 Ms. Schonhaut may not be aware that Verizon currently does not have statewide
12 averaged rates. Under the existing retail pricing scheme (which was put into place
13 long before competition in residential telephony was ever contemplated), Verizon
14 customers pay different amounts for basic exchange service depending on the
15 number of access lines they can reach with a local call. Verizon customers do not
16 currently pay different rates based on the costs of serving them. In contrast, cost-
17 based geographic deaveraging is a strategy that is available to our competitors,
18 like Cox Communications. With that in mind, Verizon's proposal seeks the
19 ability to determine, going forward, how to best respond to changing market
20 conditions and offer Rhode Island consumers the most appropriate options in
21 choosing a telephone service provider.

22 Q. Please comment on the Division's proposed fifteen percent annual cap for All
23 Other Retail Services.

1 A. In Verizon's proposed Plan, All Other Retail Services encompasses all business
2 products and services as well as consumer services with the exception of primary
3 residential basic exchange and local usage. Although Mr. Weiss states in his
4 testimony that "while I am convinced that the transition to competition, especially
5 for predominantly business related services, is doing well in Rhode Island" (Weiss
6 testimony at 14), he nonetheless recommends a fifteen percent annual cap for All
7 Other Retail Services, which includes all business services. As his rationale for
8 imposing such a cap, Mr. Weiss cites only one particular service -- alternative
9 white pages directory listings -- over which he believes Verizon possesses
10 significant market control (Weiss testimony at 16). On the contrary, white pages
11 directory listings are very much competitive services, as evidenced by the
12 proliferation of paper, CD-ROM and on-line directories offered by other
13 publishers. In any event, Mr. Weiss's argument that some services in the other
14 category are less competitive than others hardly justifies imposing a 15 percent
15 annual cap on *every* service -- including business services -- in this category.

16 Q. Dr. Ankum recommends that the Commission order Verizon Rhode Island to cap
17 its hot-cut non-recurring charge at a rate of no more than \$35 -- the rate at which
18 Verizon is offering hot-cuts in New York. Dr. Ankum goes on to suggest that
19 Verizon Rhode Island should also commit to continue to offer the same set of
20 UNEs it is currently offering (Ankum Testimony at 7). Please comment on Dr.
21 Ankum's recommendation.

22 A. As this Commission is well aware, the rates for all unbundled network elements
23 are established in accordance with the requirements of the Telecommunications

1 Act of 1996. The Commission, at this very moment, has a proceeding underway
2 that will determine the appropriate rates, *in Rhode Island*, for every unbundled
3 network element offered by Verizon Rhode Island. That proceeding is Docket
4 No. 2681, and it is the appropriate vehicle to address the UNE issues raised by Dr.
5 Ankum in his testimony. Conversent Communications is a party to that
6 proceeding and will have the opportunity to raise any and all of these issues in the
7 context of that proceeding. Furthermore, the provisions from New York that Dr.
8 Ankum cites in his testimony were part of a *comprehensive settlement* between
9 Verizon New York and the Department of Service that dealt with a number of
10 issues, yet Dr. Ankum cites only those provisions which would prove favorable to
11 his client. It would be inappropriate for this Commission to extract “selected”
12 portions of a comprehensive settlement in New York for application in Rhode
13 Island.

14 Q. Ms. Schonhaut states that crucial market segments, such as local business
15 services, do not demonstrate sufficiently deep and sustainable competitive
16 conditions (Schonhaut testimony at 20). Please comment.

17 A. Ms. Schonhaut’s assertion is contradicted by both statistical and anecdotal
18 evidence in Rhode Island. In his rebuttal testimony, Mr. Silvia demonstrates that
19 competitive market penetration in the business market has increased from
20 **PROPRIETARY BEGINS** **PROPRIETARY ENDS** in the past six
21 months. In fact, Cox itself is making inroads in the business market in Rhode
22 Island, as evidenced by recent competitive wins it has had with respect to several
23 municipalities in Rhode Island. As examples, the City of Cranston School

1 Department, the Town of Cumberland, the Town of Burrillville, and the Town of
2 Tiverton Police and Fire Departments recently migrated their local services from
3 Verizon to Cox. Cox also provides telephone service to over 140 stores at the
4 Providence Place Mall. In addition, Verizon RI could cite many other examples
5 of competitive local exchange carriers who have won competitive bids for
6 business customers in the state.

7 Q. Ms. Schonhaut's testimony regarding schools and libraries refers to the existence
8 of a fund and states that Verizon "has been the only carrier withdrawing from the
9 fund" (Schonhaut Testimony at 34). Please comment.

10 A. Ms. Schonhaut is mistaken as to the existence of *any* fund upon which Verizon is
11 able to draw. Since Verizon began voluntarily subsidizing Internet access for K-
12 12 schools and public libraries in Rhode Island back in 1993, it has contributed
13 over \$13.2 million. This money has not been recovered from any fund; rather, it
14 has been paid directly out of Verizon Rhode Island's earnings.

15 Q. Please comment on the Division's proposal that the Commission require Verizon
16 to continue funding the Internet access program through December 31, 2005
17 (Weiss Testimony at 20).

18 A. The Division provides no rationale or legal basis for requiring Verizon Rhode
19 Island to continue its voluntary subsidy of the Internet access program past June
20 30, 2003. Should the Commission order Verizon to continue funding this
21 program through December 2005, as suggested by the Division, the Commission
22 will be placing a burden upon Verizon and its shareholders that is blatantly unfair
23 and not consistent with the "competitively neutral" provisions cited in §254(h)(2)

1 of the Act. Rather, the Commission should accept Verizon's offer to extend its
2 voluntary funding of the schools and libraries program to June 30, 2003, and
3 instruct the Division to work with the Department of Education to find an
4 alternative funding mechanism prior to that date.

5 Q. In his testimony, Mr. Lanni states that the Division strongly believes, in any
6 competitive regulated utility environment, that service performance requirements
7 must be maintained (Lanni Testimony at 6). Does Verizon agree?

8 A. No. There is no need for the Commission to retain retail service quality standards
9 given the competitive nature of the Rhode Island telecom market. The evidence
10 presented in this case clearly demonstrates that the market forces in Rhode Island,
11 not government regulation, should dictate the quality of service provided to Rhode
12 Island customers.

13 Q. Does this conclude your testimony?

14 A. Yes.